

LMI

Survey

LOW- AND MODERATE-INCOME POPULATIONS AND
SERVICE ORGANIZATIONS IN THE TENTH DISTRICT

FEDERAL RESERVE BANK *of* KANSAS CITY

2013

SUMMARY

Indicators of economic conditions in the low- and moderate-income (LMI) community were mixed in the third quarter, with generally modest movement in the indexes. The broadest measures of economic conditions—the LMI Financial Condition Index and the LMI Service Needs Index—both declined moderately. The LMI Financial Condition Index has largely maintained its value following a significant surge in the first quarter. Although steady, both indicators still point to deterioration in overall economic conditions for the LMI community well into the economic recovery. In particular, the LMI Service Needs Index remained well below the other indicators and has failed to make any significant gains over the last several quarters.

Much of the movement in these broad indicators of economic activity reflects the condition of the LMI labor market. The LMI Job Availability Index was solidly in positive territory in the third quarter relative to a year ago, and the fourth-quarter outlook was stable. Gains in jobs would likely have a significant effect on these broad indexes. Most survey contacts reported too few jobs were available for the LMI in the third quarter, but stability in the labor market and the improvement over last year suggest that a significant job recovery may be on the horizon.

While most deemed the stock of affordable housing to be inadequate, the index is near neutral and has recently advanced, indicating stability in that market. The credit access index continues to reveal deterioration but has improved considerably over the last few quarters.

Funding remained a critical issue for many organizations serving the LMI population, but these organizations have maintained their capacity to serve clients.

DETAILS

The LMI Financial Condition Index, the broadest assessment of economic conditions in the LMI community, declined moderately in the third quarter following a modest gain in the second quarter and considerable improvement in the first quarter.¹ Although the index remained below neutral (indicating continued overall deterioration), more than two-thirds of respondents reported that conditions were stable (no change). Further, the index remained well above 2012 levels. Major challenges to improved economic conditions noted by survey contacts were low, stagnant wages; affordable homeownership and rental opportunities; and concerns about unemployed LMI workers securing and retaining jobs.

Many survey respondents commented about the federal government impasse, including the effects of sequester and the recent government shutdown, and specifically, cuts to funding. Indeed, the majority of general comments indicated concern about government funding and uncertainty, including the likely effects of, and confusion about, the Patient Protection and Affordable Care Act. The assessment of near-term future conditions fell sharply from the second quarter, but the second-quarter number was an aberration compared to previous quarters. The third-quarter value of 73.7 was largely consistent with previous quarters.

Another broad measure of economic conditions in the LMI community is the LMI Service Needs Index,

which has remained very low well after the recession at 44.7. This measure is consistent with continued unabated demand for many public assistance programs, such as the Supplemental Nutrition Assistance Program (food stamps), well after the recession's end.² Well over half of survey respondents reported increased demand for their services, including basic needs such as food, health and utilities. Affordable housing was most often noted to be in high demand. As mentioned in past survey reports, long-term unemployment remains a critical underlying factor of the continuing and accelerated demand for services as the unemployed and underemployed exhaust financial resources.³ The exhaustion of these resources has led many to their first use of the services provided by survey contacts. One contact noted a "growing legion of our population identifying with (the LMI) cohort." Contacts also noted federal, state and local budget cuts as factors in the increased demand for their services.

The LMI Job Availability Index was near neutral in the third quarter, even after falling significantly to 98.9 from 110.4 in the second quarter. Excluding the second quarter, the jobs index has hovered near neutral for several quarters, indicating a general assessment of stability. The jobs index, as are the other LMI indexes, is a rolling benchmark, meaning that conditions are measured relative to previous quarters, and thus this stability does not indicate a sufficient number of jobs are available to LMI workers. Most survey respondents report too few jobs are available for LMI workers and that available jobs pay wages that are too low or not "livable" and offer few if any benefits—most critically, health insurance.

As in a number of recent surveys, contacts have reported that many jobs typically available to lower-skilled LMI workers have been filled by the underemployed—those who would normally qualify for higher-skilled, higher-paying jobs but see few options in that area. This reality has forced many LMI workers out of work. On a positive note, job availability relative to a year ago was solidly in positive territory at 122.7, indicating that the LMI labor market was much stronger than a year ago. The future outlook was near neutral.

A special question in the third-quarter survey asked about workforce development needs in the LMI community. Comments focused on the need for specialized, technical training for higher-skilled jobs, reflecting the ongoing polarization of the labor market,

where job growth has come from low-skill, low-paying jobs and high-skill, high-paying jobs, with little in between. Certificate programs were highlighted as a good opportunity for LMI workers to advance in the labor market. A need for retraining the unemployed also was mentioned by many respondents. Further, contacts noted the need for these skills to match well with demand in the marketplace and a need for businesses to become more involved in training LMI workers. Contacts also said businesses need to offer LMI workers opportunities for full-time, entry level jobs where there would be room for advancement, higher pay and benefits. Some contacts reported a lack of job readiness, such as personal responsibility and time management. Many survey respondents also mentioned tangential issues that often preclude LMI workers from securing and retaining employment, such as adequate transportation and child care.

The LMI Affordable Housing Index increased modestly to 87.9 from 83.3. This index has hovered just below neutral for several quarters. As noted above, the index reports changes in conditions and does not reflect the stock or adequacy of affordable housing.

A special question was asked in the third quarter survey about the adequacy of affordable housing and to what degree the need for affordable housing was being met. Survey respondents mostly reported that the stock of affordable housing in their communities was inadequate. A significant number of contacts mentioned that half or more of those in need lacked affordable housing, although this number varied considerably. Some noted that 75 to 80 percent of needs were not being met. In many communities, long waiting lists for subsidized housing have kept many of the LMI out of affordable housing.

A large number of families were reported to be cost-burdened by increasing rents and a lack of affordable owner-occupied housing. Some noted that the lack of affordable owner-occupied housing was exacerbated by the purchase of homes by investors. A somewhat surprisingly large number of survey contacts reported that natural disasters such as tornados and floods had significantly reduced the stock of affordable housing. Gentrification was also reported to have reduced the stock of affordable housing in some areas. Finally, many survey respondents noted that affordable housing often is in poor condition or even "unsafe."

The LMI Credit Access Index continued its climb toward neutral, advancing in the third quarter from 82.9 to 88.0. The credit access index previously has been among the worst performers. According to survey respondents, the problem facing the LMI is not access to credit, but rather access to *affordable* credit. These statements, typical of statements in previous quarters, also lament the use of payday lenders and other high-cost, alternative financial institutions. One contact advocated for the availability of consolidation loans that would allow LMI people with significant debt to repay at more reasonable rates. Others suggested that banks should “loosen up on their current lending practices” as a way of making credit more affordable to the LMI, especially for mortgages.

The LMI Organization Funding Index increased significantly in the third quarter to 88.2 from 77.6. The

index had approached neutral at the end of 2012, but much of that increase likely reflected year-end giving. The funding index, while fairly strong relative to recent quarters, still showed a modest deterioration, as it stayed below neutral. About 30 percent of survey respondents reported a drop in funding, with most of the remainder reporting little change.

Despite some funding challenges, a large majority of survey contacts indicated their capacity to meet constituents’ needs has not declined. About one-quarter of respondents reported an increased capacity to serve their clients, while a large majority of the remainder reported little change. The LMI Organization Capacity Index inched above neutral in the third quarter to 105.3. Organization capacity measures the ability to provide services and includes factors other than funding, such as staff and volunteer levels.

ENDNOTES

¹The index can range from 0 (most deterioration in conditions) to 200 (most improvement in conditions), where a value of 100 is neutral. In this case, a larger number of respondents (roughly 25.3 percent) reported that conditions had worsened than reported that they had improved (about 6.3 percent), leading to the consensus reading below neutral.

²For more information on the demand for services, as well as other conditions facing the LMI during the economic recovery, see Kelly D. Edmiston, “The Low- and Moderate-Income Community in Recession and Recovery: Results from a New Survey,” Federal Reserve Bank of Kansas City, *Economic Review*, 2013, First Quarter.

³The “underemployed” are those who have jobs that are below those consistent with their training and experience and therefore pay lower wages than they would likely earn if they were fully employed in their fields.

For questions or comments, or if you provide services to LMI people and would like to participate in the survey, please contact Kelly Edmiston at [Kelly Edmiston](mailto:Kelly.Edmiston@kc.frb.org) at Kelly.Edmiston@kc.frb.org.

About the Survey

The quarterly LMI Survey measures the economic conditions of low- and moderate-income populations in the Tenth Federal Reserve District and the organizations that serve them. LMI individuals have incomes below 80 percent of the area median income, which is defined as the metropolitan median income for urban residents and state median income for rural residents. Survey results are used to construct five indicators of economic conditions in LMI communities and two indicators of the condition of organizations that serve them. The goal is to provide service providers, policymakers and others a gauge to assess changes in the economic conditions of the District’s LMI population over time.

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DIFFUSION INDEXES FOR LOW- AND MODERATE-INCOME INDICATORS*

Perception of current conditions relative to conditions in the previous quarter				
LMI Index	3rd Qtr 2013	2nd Qtr 2013	1st Qtr 2013	4th Qtr 2012
Quarter Surveyed				
LMI Financial Condition Index	81.1	87.5	85.3	68.7
LMI Service Needs Index	44.7	47.3	56.6	47.8
LMI Job Availability Index	98.9	110.4	104.2	98.2
LMI Affordable Housing Index	87.9	83.3	80.2	87.7
LMI Credit Access Index	88.0	82.9	90.6	82.1
LMI Organization Capacity Index	105.3	98.1	98.0	109.6
LMI Organization Funding Index	88.2	77.6	84.0	93.9
Perception of current conditions relative to conditions one year ago				
LMI Index	3rd Qtr 2013	2nd Qtr 2013	1st Qtr 2013	4th Qtr 2012
Quarter Surveyed				
LMI Financial Condition Index	82.8	82.5	81.1	71.3
LMI Service Needs Index	46.1	41.7	54.5	36.0
LMI Job Availability Index	122.7	124.0	118.3	111.9
LMI Affordable Housing Index	81.3	90.1	68.9	77.1
LMI Credit Access Index	87.8	80.0	78.4	78.6
LMI Organization Capacity Index	96.8	100.0	94.9	101.8
LMI Organization Funding Index	74.5	72.0	71.0	77.4
Expectation in the current quarter for conditions in the next quarter				
LMI Index	3rd Qtr 2013	2nd Qtr 2013	1st Qtr 2013	4th Qtr 2012
Quarter Surveyed				
LMI Financial Condition Index	73.7	96.2	86.1	76.0
LMI Service Needs Index	57.1	46.7	61.6	54.0
LMI Job Availability Index	97.3	110.0	119.5	109.4
LMI Affordable Housing Index	103.8	85.5	95.0	88.9
LMI Credit Access Index	82.2	101.3	97.6	87.1
LMI Organization Capacity Index	92.1	103.4	88.0	110.0
LMI Organization Funding Index	76.6	92.6	76.9	78.6
100 responses				

* Providers of services for the low- and moderate-income population responded to each item by indicating whether conditions during the current quarter were “higher” (or “better”) than, “lower” (or “worse”) than, or the same as in the previous quarter or year. The index numbers are computed by subtracting the percent of service providers that responded “lower” (or “worse”) from the percent of service providers that responded “higher” (or “better”) and adding 100. The exception is the LMI Service Needs Index, which is computed by subtracting the percent of service providers that responded “higher” (or “better”) from the percent of service providers that responded “lower” (or “worse”) and adding 100 to show that higher needs translate into lower numbers for the index.

A value of 100 is neutral in the indexes. Any number below 100 indicates that the overall assessment of survey respondents is that conditions are worsening. For example, an increase in the index from 70 to 85 would indicate that conditions are still deteriorating, by consensus, but that fewer respondents are reporting worsening conditions. Any value above 100 indicates improving conditions, even if the index has fallen from the previous quarter.